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THE LABOUR MARKET AND INCOME DISTRIBUTION IN ARGENTINA[1]

by

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THE LABOUR MARKET AND INCOME DISTRIBUTION IN ARGENTINA*

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From 1976 on the inward-oriented growth strategy that had prevailed in Argentina since the 1940s definitively ceased to underlie economic policy making. Alternative roads to economic growth were favoured and pursued, but in fact this policy transition, which came after ten years of uninterrupted growth (1964-1974), ushered in a long period of decadence. Stagnation was accompanied by pervasive inflation. In 1990 GNP was below the 1975 level; GNP per capita declined at an average annual rate of -1.4% between 1976 and 1989;[1] and the GDP and employment shares of manufacturing fell. In spite of an increase in the profit share after 1976, a combination of widespread financial speculation, conspicuous consumption, interest payments on the external debt and massive capital flight conspired to depress the rate of investment in productive equipment, which plummeted in 1981-83 (-18.2% per year), and continued to fall between 1983 and 1989 at an average annual rate of -5.1%. The transfer of savings abroad was at the expense of wage income, and the fall of labour's income share largely exceeded the increase in the rate of gross savings (Marshall, 1993a).

These severe problems were addressed by a number of consecutive stabilization plans, some of which achieved momentary success, as was the case with the "heterodox" Austral Plan of 1985. In 1991-93 yet another economic programme, agreed with the IMF, was implemented. It rested on deregulation, a tight fiscal policy and large-scale privatization, a fixed exchange rate and the opening up of the economy to imported manufactures. One important aim, attained in 1992, was Argentina's incorporation in the Brady Plan for the re-negotiation of the foreign debt. The economic programme was applied thoroughly, and had deep, both positive and negative, impacts in a relatively short period. Stabilization was achieved and maintained throughout these years. High interest rates ensured a continuous inflow of foreign exchange, essential to maintain the exchange rate fixed in 1991. Cuts in government expenditure, the increase of tax revenues and, particularly, privatizations eased the fiscal deficit. Economic activity, including manufacturing, recovered. GNP boomed during two consecutive years at rates near 9%; in 1991 it reached, and in 1992 finally surpassed the 1980 level.[2] In contrast to these positive effects the explosion of imports due to trade liberalization measures resulted in a growing trade balance deficit even though exports, including non-traditional manufacturing goods, were showing an upward trend initiated in 1988. At the time of writing this paper, early 1994, the economic programme still is underway and inflation is under control. In 1993 growth rates, although still high, decelerated, particularly in manufacturing, and the economic debate's central concern is whether it will be possible to go beyond mere recovery and resume sustained growth or not.

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[1] Data from Central Bank (BCRA) and CEPAL (United Nations Economic Commission for Latin America).

[2] See table A1, Appendix. Investment also increased, but while in the 1980s machinery had explained about 31% of gross fixed investment (with the exception of 1982-83 when it fell to 27-28%; in CEPAL, Indicadores macroeconómicos de la Argentina, Buenos Aires, October, 1991; 1988-90 preliminary figures), a 1994 study made in the union of manufacturing employers holds that only 19.4% of fixed investment in 1992 can be assigned to machinery, and that only a segment of this latter portion is machinery for production (*Página 12*, Economic Supplement, January 30, 1994).

The long 1976-1993 period witnessed changes in the supply of labour, such as the decrease of internal migration to industrial centres, the growth of female labour force participation rates and an overall improvement in education. The structure of labour demand also experienced substantial modification: relative fall of employment in manufacturing and construction, and expansion of employment in small sized firms; changes in skills demanded; increase in the presence of women in the employed labour force due not only to their own larger labour force participation rate but also to changes in the structure of demand; expansion of precarious forms of employment, as a more extensive use of temporary labour was made and, due to widespread evasion of payroll taxes, less and less workers were under the coverage of social security institutions. In addition, unemployment increased and real wages deteriorated. The mechanisms of wage determination also changed, as is discussed below. Mirroring these processes, income distribution became more uneven. The climax was reached in 1989, when inequality, unemployment and poverty were intensified by hyperinflation in the midst of political turmoil.

Many of these labour market and distributional changes may be traced back to the state's active intervention through its social and economic policy instruments. In the context of their envisaged economic growth strategies as well as their shorter term stabilization goals, the successive governments inter alia manipulated wages and dealt with trade unions and collective bargaining, devised stimuli for manufacturing exports, reformed the tax system and decided on the level and composition of public expenditure. Though not all of the measures taken brought the desired results, they had direct and indirect effects on labour demand and supply, the distribution of income, and living standards. In particular, I will argue that governments' views on the economic role of wages and the subsequent policy choices - pre and post debt crisis and "adjustment" - were one major factor behind the increase in inequality. To this determinant were added the effects of pervasive economic stagnation and its sequel of unemployment growth and weakened trade union, and of the acceleration of inflation. At least since the 1930s the state had intervened in the process of wage determination in different forms, and wages had been repeatedly controlled by the state (Cortés and Marshall, 1993a), but from 1976 to 1988 they were administered systematically and without the interruption of periods of free wage bargaining.

The aim of this paper is to highlight the major labour market and distributional effects of policies implemented from the mid 1970s on, paying special attention to the economic programme applied in 1991-93. Three years undoubtedly is too short a period to permit gauging accurately the impacts of the latter programme, but one can note certain patterns which appear to be superimposed over long term, structural tendencies. In any case, only the resumption of stable economic growth will permit a disentangling of the ephemeral changes from those that are more permanent.

In what follows, the central policy measures applied in each period as well as the economic strategies behind them are succinctly reviewed; a more detailed account is provided for the 1991-1993 programme. Next, labour market trends are examined and an attempt is made to identify policy impacts on the volume and structure of the labour supply and on labour requirements. Wages and income distribution are then analyzed and, finally, the distributional effects of changes in taxation and social expenditure are discussed.

ECONOMIC AND SOCIAL PROGRAMMES, 1976-1993

The military government's (1976-1983) neoliberal economic programme was an attempt to overcome the constraints faced by inward-oriented industrialization (market size, external restrictions, high levels of protection) in the context of the new international order (Cortés and Marshall, 1993). Wage cuts, trade liberalization and the financial reform were intended to foster growth, modernize the economy and bring inflation under control. The reduction of labour costs was considered to be indispensable for restoring growth. However, a short-lived period of investment growth (1977-1980) was soon followed by dropping investment levels. Trade liberalization (1979-1981), which had been expected to encourage the modernization of Argentinian manufacturing and to increase its external competitiveness, led instead, together with the over-valuation of the Argentine currency and high interest rates, to the dismantling of manufacturing industries (Kosacoff, 1993). Easy international credit contributed to an unprecedented growth of external indebtedness that, to make matters worse, was matched by capital flight rather than by increased domestic investment. The GNP share of the public sector did not decline despite the rhetoric on "state's subsidiarity" and the need to curtail state expenditure. In brief, the economic programme was not successful, and this period ended with the stagnation of manufacturing and a large fiscal deficit due to state's adoption of the overwhelming privately-incurred external debt.

In relation to the labour market, the military government fixed wages, repressed trade unions and eliminated collective bargaining as well as the right to strike, and reformed the labour code to the detriment of workers (Cortés and Marshall, 1993). In 1976, money wages, thought to be at an "artificially" high level due to trade union intervention, were frozen while prices were liberalized. Wage policy aimed also at increasing wage dispersion, that was considered to have been excessively narrowed due to trade union interference; wage disparities now were expected to stimulate labour mobility, reflect productivity differentials across firms and segment further the labour force in order to undermine the basis of centralized collective negotiation and union strength (Marshall, 1988a). Measures to widen wage differentials were applied also within the public sector.

Tax reforms of this period included a raise of personal contributions to social security; the elimination of employer payroll taxes for the state pension scheme and for the public housing fund, revenues which were replaced by the generalization of the value added tax; tax exemptions to personal income out of distributed profits; and a shift to taxes that can be more easily passed on to the consumer. With taxation on income and profits representing only 10% of taxation revenues, Argentina's tax structure already was, by international standards, extremely regressive, and this characteristic was exacerbated by the reforms.[3] The pressure of direct and indirect taxation on labour income increased (Marshall, 1988a).

The Radical-party government elected by the end of 1983, under president Alfonsín, initially had planned to base economic growth on the increase of manufacturing exports, but inflation and trade balance difficulties soon led it to give priority to price stability and obtaining foreign exchange for servicing the external debt inherited from the previous government by way of reducing consumption so as cut imports and expand exports. Its programmes centred in stabilization plans against inflation and balance-of-payment disequilibria (Cortés and Marshall, 1993), while efforts were being made to re-negotiate debt repayment conditions. The so-called "heterodox" stabilization plan known as the Austral Plan, that in principle implied wage and price control, was launched in 1985; as its success in curbing inflation lasted only two years, it was followed by new stabilization packages, that proved unable to check the acceleration of the rate of price increase. Besides, government incentives failed to stimulate firms to invest as expected. Schemes to promote investment and growth of manufacturing exports in the form of tax exemptions were often utilized in a fraudulent way. Investment continued to fall, and domestic capital held abroad did not return. The government term concluded with the deepening of the crisis and hyperinflation.[4]

The labour policy of the Radical government centred on wage control. Reinstatement of collective bargaining did not encompass wage negotiation until 1988. Wages were administered up to 1988 on the assumption that wage increases would bring about balance-of-payment difficulties by reducing the export surplus and expanding imports, and would accelerate inflation due to the "premature overheating" of the economy (Marshall, 1989).

Among the main taxation reforms were the elimination of the earlier extension of the value added tax to wage goods; the reinstatement of employer payroll taxes for the state pension scheme though at less than their historical level; measures to improve the control of tax evasion;

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[3] Taxes on income and profits dropped from 9.6% of tax revenues in 1972 to 5.4% in 1981; figures for industrialized countries were, respectively, 41.4% and 38.7%, and for Latin America and the Caribbean, 21.7% and 19,4% (data from Petrei, 1984).

[4] See *inter alia* Canitrot (1992) on factors behind the failures of the 1976-83 and 1984-89 programmes. In relation to the latter he emphasizes the combination of structural vulnerability (the ways in which the fiscal deficit had to be financed) with political events.

specific taxes on sales of fuels, gas and telephone services to provide funds for social security; and the creation of the "forced savings" scheme, a temporary tax on personal incomes above a stipulated threshold. These measures were not sufficient to alter the global regressiveness of the taxation system (Marshall, 1993a).[5] Taxes on personal income increased, but only from 5.5% of total taxes collected in 1983 to 6.2% in 1988, and from 1.0% of GNP to 1.2%.[6]

The *Justicialismo* won the next elections (mid 1989), and this new government under president Menem adopted neoliberal views once again, as earlier had the military government of 1976-83. After several failed attempts at reducing inflation,[7] a new economic programme was applied beginning in 1991. It implied a radical transformation of the "rules of the game" traditional in Argentina's economy. Having some points in common with policies put in practice by Economy Minister Martinez de Hoz during the military regime, the new programme also had its own special features. Moreover, ideas that earlier had not been implemented fully now were carried out thoroughly and more coherently. In this sense, this was a new economic strategy, that assigned a new role to the state, and represented a real fracture with the past.

The foundations on which this programme was based included convertibility of the Argentine currency, reduction of the fiscal deficit through both cutting expenditure and increasing tax revenues, and deregulation of markets. Ultimate objectives were modernization, and the growth of savings, investment and productivity. Trade liberalization was perceived mainly as an stabilization device, but one which would eventually serve to increase productivity and the competitiveness of Argentine manufactures. Although wages were not controlled directly by the state, wage policy was to encourage decentralization of wage bargaining and to subordinate wage raises to productivity increases.

The *Plan de Convertibilidad* of early 1991 was the centre piece of the government's economic programme, designed to curb inflation. Its main characteristics were strict control of monetary emission, a fixed exchange rate with the US dollar (1 to 1) and a monetary base backed by international reserves (gold, foreign exchange, and similar); indexation was prohibited. This plan, enacted by law, helped reestablish confidence in the Argentinian currency, totally shaken by the hyperinflation of 1989 and the failure of previous stabilization packages. Although certain prices (e.g. of private services) continued to rise visibly, inflation gradually subsided; first

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[5] In 1986 the impact of taxation on family income (26.1%), although quite similar in all income classes, was not completely neutral but was highest on the poorest decile (29.3%), followed by the second lowest and the top deciles (27%) (Santiere, 1989; see this study for further details as well as for a note of caution on tax incidence on the poorest decile).

[6] According to figures in Carciofi (1990).

[7] On these earlier programmes see e.g. Canitrot (1992).

wholesale prices and later the consumer price index showed the favourable impact of this programme: between December 1992 and December 1993 consumer prices rose by 7.4%.

Partly in the framework of the MERCOSUR treaty agreed to earlier, and partly as a result of generalized rebates of import duties,[8] the opening up of Argentina to manufactures from abroad broke the long established pattern of manufacturing protection, that had been challenged only at the turn of the 1970s by means of similar, albeit short-lived measures. The result of the trade liberalization, together with the "cheap" dollar fixed by the Convertibility law and maintained by the inflow of foreign capital that responded to high interest rates, was a dramatic surge of imports, that much more than trebled between 1990 and 1993 generating an important trade balance deficit (-2,636,800,000 dollars in 1992, -3,695,600,000 in 1993).[9]

The fiscal deficit was to be tackled by reducing expenditure and increasing tax revenues.[10] To cut down expenditure a vast privatization programme was envisaged, and measures were taken to reorganize and modernize the state structure and reduce public-sector employment. This latter was to be helped by *ad hoc* international loans. The GNP share of public expenditure, including the service on the public debt, averaged 32.6% in 1980-83, 31.1% in 1984-88, 27.7% in 1989 and 26.8% in 1993 (Vargas de Flood and Harriague, 1993).

Starting with the hasty privatization of the Argentinian airline and of the telephone system, the process proceeded quickly and by 1993 a large number of formerly state enterprises were in private hands, often owned jointly by domestic and foreign capital: water and sewage, electricity, oil, gas, telephones, railways and the underground transit system, roads, steel works, as well as many others. The Argentine state shared ownership in some of them; some were leased on a long term basis.

Tax reforms were devised with a view to generating genuine resources for the state. They were based on changes in the structure of taxation, a reorganization of the system so as to foster registration (centralization and simplification of procedures) and a vast campaign among the population against the overwhelmingly widespread tax evasion.[11] One of the most important of

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[8] More details on import tariffs are in the official document "*Argentina en Crecimiento*", Ministerio de Economía y Obras y Servicios Públicos, Buenos Aires, n.d.

[9] Data from Instituto Nacional de Estadística y Censos (INDEC), Información de Prensa, 1994 (figures for 1993 are preliminary).

[10] For details and summary of all measures taken see "*Argentina en Crecimiento*". op. cit.

[11] Government efforts to control evasion have no earlier precedent: advertising through the media, a denouncing campaign, more inspections, benefits to compliers, lotteries, stronger penalties to evaders, etc.

tax reforms was the generalization and increase of the value added tax, on the grounds that this tax would be easier to collect. Government effort met with some success; registration rose substantially and tax revenues increased from 15.1% of GNP in 1989 to 18.1% in 1992.[12]

The development of the capital market and other incentives failed to increase savings and investment as much as the government had envisaged for the purpose of resuming economic growth. Despite the stagnation of real wages and employment, consumption increased from 79% of GNP to 83% between 1990 and 1992 (table A, Appendix), fostered by the re-appearance of consumer credit due to stabilization and increase in confidence, the opening up to cheap imports together with an unsatisfied demand for foreign consumer goods, and the growth of conspicuous consumption. The expansion of private consumption undermined official attempts at reviving domestic savings. In this context, the privatization of the retirement pension scheme was intended not only to reduce public expenditure but also to force savings out of wages. This reform, according to which the private system will coexist with the public scheme and workers will have the right to opt between them, is only to start working in 1994. In addition, by the end of 1993 an official decree reduced or eliminated (depending on the firm's location) payroll taxes of manufacturing enterprises for the social security system (retirement, health care, and family allowances); allegedly this was to increase investment and employment.[13]

Apart from the privatization of the retirement scheme and the reduction of payroll taxes, the system of *obras sociales* has been under discussion. This system provides health and other services (such as tourism, consumption cooperatives and sports) to workers. It rests on the compulsory contributions of workers and employers to each economic activity's *obra*, which is managed by the corresponding trade union; state centralization of the system ensures however redistribution of funds among the *obras* if necessary. As a central source of revenues (9% of the wage bill, adding up worker and employer taxes), it is the traditional stronghold of trade unions, and as such it was repeatedly attacked by governments since the 1960s. Official projects proposed the elimination of forced affiliation to the *obra* of the industry of employment, in order to facilitate free election of coverage. Liberalization would give workers the right to choose among *obras* and, eventually, to opt for private insurance schemes for health care, helping undermine the main source of economic power of the trade unions.

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[12] "*Argentina en crecimiento*", op. cit., table 4. The number of persons registered increased in 1989-92 by 78% in the case of taxes on profits, and by 327% in the case of the VAT, and the amount collected rose concomitantly (ibid.:12).

[13] In the words of the Secretary of Economic Programming ..." with the very low wage levels in some provinces and a 60% discount in payroll taxes, labour costs in some areas of Argentina are today similar to Chile's"; this, added to reduction in energy costs for manufacturing "will make investment attractive" (in *Página 12*, February 1st, 1994; translation AM).

The controversial national employment law approved by the end of 1991 after lengthy discussions[14] was expected to encourage employment growth and reduce youth unemployment with "promoted" temporary contractual modalities; it also was designed to reduce clandestine employment, and stipulated a limited unemployment insurance scheme. As this law failed to stimulate employment creation, the 1993 official project of a new labour code,[15] to be discussed in Parliament in early 1994, included a wide-ranging variety of de-regulating measures, involving the employment contract, dismissal, working time, etc.,[16] that were supposed to foster investment and employment growth because they were basically designed to satisfy employers' demands.

In 1991, to ensure stabilization and to reduce labour costs, restrictions were placed on wage increments agreed through collective bargaining, which were now permissible only if backed by effective or expected productivity increases ("productivity agreements").[17] With similar aims, the decentralization of collective bargaining was promoted through a decree of 1993.

THE LABOUR MARKET

1. Labour supply

Social and economic policies had impacts on the volume and structure of the supply of labour other than those that were exerted through changes in labour demand. In particular, state-administered wage levels affected female labour force participation rates, state controlled retirement pensions influenced the labour market participation of older age groups, housing policy modified internal and international migration trends, and state fixed exchange rates had

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[14] Trade union and labour lawyers argued that it would legitimize precarious forms of employment and foster temporary employment at the expense of indefinite contracts. Employers found this law insufficient, as it did not satisfy their demands for greater deregulation of the employment contract, and too complicated, with many regulations which required trade union approval.

[15] This followed several attempts in the same direction, successively discarded due to widespread opposition.

[16] This list is not exhaustive; among other changes in labour legislation, limitations to the right to strike in essential services were decreed in 1990; the law on work injuries was modified to reduce costs; and collective bargaining in the public sector was allowed.

[17] At the time of writing, there is still an ongoing controversy on how productivity increases should be estimated.

an impact on the volume of immigration from neighbouring countries.[18] These policies structured the supply of labour, as they modified its gender and age composition, as well as its composition according to place of origin; their effects were superimposed over structural trends. Obviously, labour force participation rates and migration trends are influenced also by other socio-economic factors and labour market conditions, and in practice it may be difficult to isolate the specific impact of those policies.

During the 1970s labour force participation rates tended to decline. Men's labour force participation continued its longer-term falling tendency, while female participation stagnated after substantial growth in the previous decade. Lack of employment opportunities intensified the labour market exit of male workers, as reflected in the fall in the activity rate of adult men of working age heading households (Cortés, 1985); as we will see this contributed to maintain unemployment rates low. The stagnation of women's participation rates was the outcome of the contrasting behaviour of the youngest and oldest segments, whose labour market participation dropped, and of adult women, aged 25-54, whose participation increased[19] to compensate for the job and income loss of the household head.

In the 1980s and early 1990s women continued to enter the labour market in larger numbers (table B, Appendix).[20] Overall labour force participation tended to rise (table 1A) owing to the renewed growth of female labour force participation. Fragmented evidence suggests that the latter increased, among other factors, because many women from low-income households, mainly spouses,[21] faced with low wages and the unemployment of adult male household heads, entered the labour market to supplement family income. As a result, in Buenos Aires, the share of women and, after 1990, of household members other than the main

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[18] Naturally, education policy should be expected to affect the educational structure of the labour force. In this case, the growing deterioration of the public education system was not reflected by the usual educational indicators, as these show rising schooling rates, the educational upgrading of the population, and declining drop out rates (population census, 1980 and 1991).

[19] Population Census data, 1960, 1970 and 1980. Data refer to population aged 14 and over. In the 1970s labour force participation rates fell in all age groups except for those aged 35-44 (whose participation increased) and 45-54 (whose participation did not change).

[20] These data are for Buenos Aires. In 1993 the increase of female participation was sharp. For some, women's larger participation was the sequel to the substantial growth of male unemployment and to pervasively low earnings. For others, quite the contrary, unemployment had mounted as a consequence of the rising participation of women.

[21] Jumps in the labour force participation rate of women in both 1986 and 1992-93 in Buenos Aires were due more to women aged 35 and over than to younger groups (data in INDEC, Información de Prensa, May and October 1993).

breadwinner in the economically active population (EAP) increased (table 2A).[22] In five out of six important provincial urban centres[23] also the share of women in employment rose, but in varying degrees (table 2B).[24] In Córdoba and Rosario, the two largest and most industrialized areas after Buenos Aires, trends are similar to those found in this latter city: the growth of women's employment mirrors the decline of manufacturing. Women's presence increased also in Neuquén (where one should take into account the substantial presence of women among internal migrants to this province that shows a positive in-migration balance) and Tucumán; in both cities the large fall in construction employment, traditional absorber of male workers, might have contributed to the increase of women's employment share. Overall, growth of female labour force participation rates was parallel to the shift of labour demand to trade and service-sector activities, prone to employ women, that is examined below.

At the turn of the 1980s the rate of labour force participation of persons aged 60 and over, many of whom were formally retired and receiving pension benefits, increased as a result of the sharp fall of retirement pay. In Buenos Aires, for instance, it was higher, for both men and women, in 1988-1993 than in 1984-85.[25] The opposite had happened in the late 1970s, when some wage earners in retirement age had left economic activity because pension benefits had deteriorated somewhat less than wages (Marshall, 1988a).

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[22] The younger age groups did not join the labour market in greater quantities.

[23] The household survey (INDEC, Encuesta Permanente de Hogares [EPH]) covers, apart from Buenos Aires, 24 urban centres, most of which are provincial capitals. The largest centres include their surrounding metropolitan area. Of those 24, I selected 2 large urban areas (Córdoba and Rosario), and four other capital cities, representative of distinct economic regions: Corrientes (Northeast), La Rioja (West), Neuquén (Patagonia), Tucumán (Northwest). These regions vary in economic and social structure, role in the overall economic, economic dynamism and, in some cases, political leadership. Hereon, observations on the provinces refer exclusively to these selected six.

[24] Due to reasons linked to the household survey processing, the tables presenting data for the provincial cities start in 1984; trends are representative of the 1980s as a whole.

[25] Retirement pay declined steadily from 1984 on; while the largest relative fall was in 1986, pensions reached extremely low levels by the early 1990s and, in 1992, they were half of what they had been in 1983 (data in FIDE, *Indicadores de Coyuntura*, 1993). In Buenos Aires, the labour force participation rate of persons aged 60-69 had been 23.4% and 24.2% in 1984 and 1985, respectively; the figures rose to 28.9% (1988), 28.7% (1990), 32.8% (1992) and 29.1% (1993). Those aged 70 and over increased their labour force participation only in 1993, from the usual 5-6% to 8.5% (data from INDEC, EPH). The same happened in Córdoba but not in Rosario. It does not seem to have taken place in the other four provincial cities examined here either, but the small number of cases in each category casts some doubt on the results (data from INDEC, EPH).

Immigration from neighbouring countries tended to fluctuate according to economic conditions in Argentina and to variations in the exchange rate. Up to the mid 1970s, comparatively more extensive employment opportunities and better wage levels had attracted these immigrants to Argentina, while better conditions in its more dynamic areas had been an inducement for internal migration. Settlement had been facilitated by a lax policy concerning use of state-owned empty urban spaces, that resulted in the expansion of shanty towns.

After 1976, apart from directly discouraging immigration so as to check the growth of unemployment, the military government was intent in eradicating those shanty towns in Buenos Aires and impeding new settlements. Several actions taken in this direction deterred immigrants, already less inclined to enter Argentina due to the fall in wages and employment, from staying (Marshall and Orlansky, 1983). The liberalization of housing rents also contributed to make housing more expensive. By contrast, in 1979-81 the over-valued domestic currency provided an incentive for temporary immigration. Internal migrants too ceased to come to Buenos Aires as employment opportunities decreased and housing became more costly. The result was some decrease in the share of internal migrants in the area's workforce.[26] At the same time, the emigration of Argentines increased (Marshall, 1988c).

In spite of the more permissive attitude towards shanty towns of the post 1983 civilian government, migration did not increase due to the adverse economic conditions. Economic decline seemed to suffice to discourage in-migration from the provinces to the earlier industrial poles of absorption, although migration to the relatively unpopulated Patagonian provinces, with more employment opportunities, continued.[27] In Buenos Aires city proper, the share of internal migrants fell in 1980-1991 from 25% to 23%; and in the surrounding metropolitan area, from 45% to 34% (Population Census).[28] By contrast, immigrants from neighbouring countries maintained their share. While in the late 1970s immigration trends had contributed to lessen unemployment, their impact in the 1980s is not that clear. But in 1992-93, immigration from bordering countries seemed to be on the increase again, further enlarging labour supplies, now due to the comparative over-valuation of the Argentinian *peso*: immigrants are prepared to accept

[26] According to EPH data in Cortés (1985) internal migrants' EAP share decreased from 39% in 1974 to 35% in 1981 and 1982.

[27] Data on migration are found in Lattes and Sana (1992).

[28] The 1980 figure does not count as internal migrants those born in the Buenos Aires province or in the city of Buenos Aires.

low wages in the host country that are high in terms of their national currencies.[29]

2. Labour requirements

As was the case with the supply of labour, economic policies undoubtedly affected labour requirements; again, their impacts intermingled with, and are difficult to separate from, those of factors that determine long term changes in the volume and composition of employment. Among the labour market effects most obviously associated with economic policies implemented after 1976 were the contraction of manufacturing employment as a result of the overvalued Argentine currency and opening up of the economy at the end of the 1970s, and the employment effects of cuts to state expenditure, rationalization of public enterprises and privatizations.[30] And, of course, state management of macroeconomic variables and the level of economic activity systematically affected overall employment rates.

In spite of its comparatively small labour surplus by Latin American standards, at each of the successive phases of the industrialization process Argentina's economy had operated "as if" it had unlimited labour supplies, in the sense that migration made labour continuously available to the more dynamic economic centres. Rural stagnation in some provinces and agricultural transformation in others generated excess labour. Further, from the 1950s on, labour requirements in some sectors tended gradually to fall, and workers were expelled from traditional manufacturing industries; together with internal and international migrants, these sources were more than enough to satisfy the labour needs of the expanding sectors (Marshall, 1980). In any case, unemployment showed marked fluctuations and reached non-negligible levels during economic downturns, and the unemployment rate in large cities (Buenos Aires, Córdoba and Rosario) had averaged 6% in the 1960s.

During the 1970s unemployment tended to decrease (table 1A).[31] At first, in 1973-1975, this was due to employment growth. But later, paradoxically during a period when employment was falling in the private and public sectors, unemployment attained very low levels as a result

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[29] No data on international migration are readily available. In 1991, immigrants from border countries represented almost 4% of Buenos Aires city's population, and 3.5% of Buenos Aires metropolitan area's (Population Census). In early 1994, facilitated by an "amnesty", some 260,000 immigrants from bordering countries regularized their situation but there are still many more illegal residents.

[30] Rationalization of state enterprises took place not only in the 1991-93 period but also before (e.g. employment in state enterprises fell by more than 25% in the late 1970s).

[31] The unemployment rate is estimated by the household survey (see above) twice a year in 25 urban centres. Following the definition usual internationally, those who did not work in the week of the survey, had no job and were actively seeking employment are classified as unemployed.

of the above-described withdrawal of certain groups from the labour market (discouraged workers, increased retirement) and reduction of immigration from neighbouring countries and of internal migration to industrial centres, as well as of the growth of self-employment.[32] In the initial years of the military regime the government had been keen to maintain unemployment low so as to avoid providing further motive for social unrest. To this end, it not only took measures to restrict immigration from bordering countries but also recommended employers not to retrench personnel massively. Whatever its causes, in this period unemployment rates were moderate in Buenos Aires and the rest of the urban areas; it increased again only with the 1981-82 recession.[33]

In the 1980s, in contrast to the growing labour force participation rates noted above, the rate of employment relative to the urban population increased only slightly. In 1993 the urban employment rate remained at the 1988 level (table 1A). The oscillations of the employment rate to some extent reflected GNP retrogressions in 1981-83 and 1985 as well as the 1986 and 1992 economic improvement.[34] As labour demand did not rise in parallel with the labour force, unemployment and underemployment rose.[35] Unemployment levels tended to exceed those of the 1970s, and in 1989, 1992 and, particularly, 1993 they reached high figures (table 1A). Economic stagnation and recurrent crises, lack of investment, decline of construction and manufacturing activities as well as other changes in the employment structure, and finally some improvement in productive efficiency reduced labour requirements in the 1980s, at a time when the working force was expanding. The changing composition of unemployment showed the impact of labour market restructuring. In the 1980s and early 1990s the proportion of household heads among the unemployed was higher than in the 1970s, and men's unemployment rate tended to increase more than women's (table B, Appendix).

After having reached a peak in 1974-75 (almost 75%), in Buenos Aires the share of wage in total employment had tended to fall in the 1980s accompanying the process of economic retrogression (table 3A). Its fluctuations were directly associated with those of economic activity. In four out of the six provincial urban centres examined here the share of wage employment also decreased, remarkably in some (table 3B). As, for reasons I discuss below, the improved

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[32] Full details are in Marshall (1988a).

[33] Limited coverage of the unemployed due to relocation of part of the population to the fringe of Buenos Aires may have contributed also to downplay the real magnitude of overt unemployment in this city (Marshall, 1988a).

[34] The employment rate in Buenos Aires was considerably stable over 1974-93; its oscillations tend to reflect those of economic activity (table 1A).

[35] See also table C, Appendix.

economic performance that followed the 1991 policy package was not accompanied by growing labour requirements, the share of wage employment in Buenos Aires, after a slight recovery in 1991-2, dropped again to a level somewhat lower than in 1989, the recessive, hyperinflation year (table 3A).

Already since the late 1970s many of the unemployed had sought refuge in so-called "informal" activities and self-employment. Self-employment performed some role in the absorption of potential unemployment, although with the deepening of the crisis its absorption capacity tended to decline.[36] In Buenos Aires self-employment showed a steady 23% of the labour force since 1980, with peaks in 1989-90 and 1993, a figure that exceeds its usual quota in the preceding decade. Self-employment, traditionally a relatively prosperous sector, now incorporated a sizeable segment with characteristics similar to the precarious, low-income self-employment widespread in other Latin American countries.

During the 1980s the level of wage employment increased only slightly. This increase was exclusively explained by the service sector (social and personal services and finance), that more than compensated for the contraction of employment in manufacturing, mining and construction. Manufacturing employment in medium and large firms had declined throughout the 1980s, and this trend continued in the early 1990s.[37] This process was associated with the long term restructuring of manufacturing's composition, as the growing industries were not labour absorbing, but it was exacerbated by Martínez de Hoz' trade liberalization and exchange rate policy and by the crises and continued investment decline of the 1980s. Starting in the late 1970s, the largest manufacturing establishments (with more than 500 workers) expelled labour due to plant closures, concentration, rationalization and productivity increases. Were it not for some expansion in the number of small and medium-sized establishments that absorbed labour, generally under more precarious employment conditions, manufacturing employment would have fallen more sharply.[38] De-industrialization intensified the "tertiarization" of the employment

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[36] According to the population censuses, the share of self-employment in the country as a whole increased the most in the 1960s and continued to increase thereafter at a slower rhythm. See also table C, Appendix.

[37] Manufacturing employment (1970=100): 1980=88.2, 1990=62.6; (1990=100): 1992=94.0; 1993=92.3 (INDEC, Encuesta Industrial; 1993, preliminary figures).

[38] Economic Census, 1974 and 1985. In this period, the number of manufacturing establishments with 6 to 100 employees increased, while those with over 100 workers fell. Employment increased in establishments of all sizes within the range 6-500 employees, but declined in those with more than 500 workers; the highest rates of increase were in those with 6 to 25, while employment growth in establishments with 101-500 workers was very slight. Net manufacturing employment creation between 1973 and 1984 was only of some 40,000 jobs (Economic Census, 1974 and 1985). Productivity growth was associated more with organizational rationalization than with technological change (Kosacoff, 1989). There was some decentralization of manufacturing

structure that had began in the 1960s. The opening up of the economy since 1991, combined with the fixed exchange rate, with efforts at raising productivity and efficiency by catching up with more modern, labour-saving technologies and work methods, and with the deepening of economic concentration, to shrink manufacturing employment. The rapid growth of manufacturing exports since the late 1980s was unable to generate sufficient employment to offset those negative effects.[39]

In Buenos Aires, the main industrial centre, the share of manufacturing in wage employment plummeted from 41% in 1974 to 32% in 1984, 28% in 1990, and, despite recovery, to 26.4% in 1993; increasing shares were found in trade, social and personal services, and to a lesser extent transportation and finance, real estate and business services. Construction failed to absorb more workers despite occasional recoveries in building activities. In Córdoba and Rosario, where manufacturing had been relatively important, its share also declined. In all six provincial cities the weight of social and personal services increased, but the behaviour of the remaining economic activities was determined by each province's specific features (e.g. extent of state employment, importance of tourism, availability of resources such as oil, access to industrial promotion schemes, etc.).[40]

Promotion of temporary employment under the 1991 employment law did not succeed in stimulating employment creation; according to official estimates only 12,000 contracts were made in 1992 in the framework of that law ("*Argentina en crecimiento*", op. cit.:27). In Buenos Aires, the unemployment rate in manufacturing had been 3% in 1984, mounted to about 9% in the 1989-90 recession, and neared 10% in 1993 (INDEC, Información de Prensa; May and October, 1993) at a time when manufacturing activity was relatively booming. Unemployment in construction traditionally explained fluctuations in the overall unemployment rate. Since 1982 it has been a two-digit figure with peaks in 1989 and 1993 (16% in October 1993). Also in trade unemployment practically doubled between 1992 and 1993. The dramatic increase (3.7%, 6.7% and 14.5% in 1991, 1992 and 1993, respectively) in unemployment in household service is worth reporting, as it matched the growth of women's labour force participation at a time when,

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employment away from the traditional industrial centres as a result of state industrial promotion schemes.

[39] The incidence of import penetration and negative trade balances on the employment levels of different manufacturing industries during 1991-93 deserves investigation. Preliminary assessment suggested that some were adversely affected by import penetration (their output declined), but others were not, and even in some of the cases where output was maintained or increased employment fell as a result of internal reorganization and/or improved efficiency. The largest employment losses were found in the industrial groups "textiles, clothing and leather" and, particularly, "basic metals" (data from INDEC, Encuesta Industrial).

[40] See tables D1 and D2, Appendix. Trends in the economic structure of the self-employed are similar to those described for wage employment.

according to anecdotal evidence, middle-income households seem to be reducing their demand for domestic service.[41] The deterioration of the labour market situation was reflected also by the sharp increase in 1993 of the proportion of unemployed workers that have been out of work for more than three months: 27% in 1992, 43% in 1993 (INDEC, EPH). Further, the growth of involuntary part-time work, with peaks of about 9% in 1990 and 1993 (as against 6% in 1983), shows the poor quality of available jobs.[42]

Since 1990 unemployment was affected also by the reduction in state employment, from close to 1,876 thousands in 1989 to 1,609 thousands in 1992 (-14%), including the employment losses which ensued from privatization of state-owned large enterprises.[43] In certain areas of the public sector such as public administration, voluntary quits, advance retirement and elimination of temporary contracts, among other measures, contributed to reduce personnel, while at the same time there was an important number of new recruits (Orlansky, 1993).[44] But on balance, and counting privatizations and the shift of personnel to the provincial public sector due to the decentralization of secondary education, employment in the national state diminished (-52% in 1990-92); this was not the case with provincial public employment that increased 19% in the same period as it *inter alia* absorbed personnel formerly employed by the national state (IDEP (1993: table 53). Privatizations generally were accompanied by personnel reductions - through dismissals and incentives to voluntary quits -, either before the enterprise was sold or after. Between 1989 and 1993 employment in public enterprises and banks (330,000 in 1989) was halved due to privatizations (Orlansky, 1993). In certain smaller cities, the effects of privatization spread throughout the community, wholly dependent on consumption of workers so far employed by the state enterprise.

Additional factors may have played a minor role in explaining, in some urban areas, the jump in open unemployment rates in 1993. Intensified control of compliance with employment registration and labour obligations might have been followed by dismissal of clandestine employees in certain, "visible" sectors, as their employment became more expensive. At the

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[41] Sectoral unemployment rates are based on last job held by workers with previous employment. Although some of these unemployed workers might have quit their jobs voluntarily or might have been dismissed long before the time of the survey, these rates provide some estimate of layoff rates.

[42] Average rate of underemployment for the 25 urban areas (INDEC, EPH, October).

[43] According to the population census of 1980, public sector employment absorbed 16.1% of the EAP and represented 22.6% of total wage employment. By 1986 the figures were estimated to be only slightly higher, 16.7% and 23.3%, respectively (Orlansky, 1989).

[44] In Buenos Aires, the unemployment rate in public administration more than doubled between 1991 and 1992, but in 1993 it decreased again (INDEC, Información de Prensa, October, 1993).

same time, enforcement of tax obligations might have curtailed further the already low profitability of certain low-income own-account activities; these self-employed workers might have started to look for wage employment, joining the ranks of the unemployed.

The potential dampening effects of unemployment on wages and working conditions were not really cushioned by income protection schemes. The unemployment compensation scheme, created in 1991, covered only a small segment of the unemployed at the national level (10% in 1993),[45] owing probably to the rather restrictive criteria to qualify for compensation.[46] This notwithstanding, between 1992 and 1993 the number of subsidies granted increased by more than 500%, as unemployment expanded and more people applied as information on the existence of the compensation scheme spread.

WAGES AND THE DISTRIBUTION OF INCOME

The interpretation put forward in this paper is that institutional factors, namely state intervention, played a major role in the determination of the growth of inequality. The massive upward redistribution of income that started in 1976 was implemented through wage and labour policy, and determined a pattern of income distribution that still prevailed 18 years later, in 1993. Such upward shift did not lead to sustained growth but rather stagnation and the debt crisis, the labour market impact of which (fall of labour requirements, growing unemployment, weak trade unions), together with the wage policies of later governments, preserved and even intensified the degree of inequality achieved during 1976-1982. The new upsurge of high inflation from mid 1987 aggravated income concentration, and explains the inequality peak of 1989. State control of retirement pensions further deteriorated from 1987 onwards the share of the poorest 30%, where the retired have a substantial weight.[47]

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[45] The proportion varied by province between a maximum of 19% and a minimum of 3% (FIEL, *Indicadores de Coyuntura*, 12, 1993).

[46] *Inter alia*: rural, household and public administration workers were not entitled to compensation; construction workers qualified for a different scheme; workers should have been dismissed unfairly or due to *force majeure*, contributed to the fund during 12 months in the three latest years (with specific conditions for agency labour), and been registered by their employers. Besides, length of compensation was linked to the duration of contributions to the fund.

[47] The retired and other non-economically active income recipients are included in overall individual income distributions, as these refer to all income earners. According to FIDE (*Coyuntura y Desarrollo*, 1989), in 1985 the non economically active earning some income (about 80% of whom were retired or pensioners) accounted for 51.2% of the population in the 40% poorest income class, and 47.2% in 1988 (EPH data).

Despite oscillations partially associated with trends in GNP and in real wages,[48] between 1977 and 1993 a more uneven pattern of income distribution, as compared with that which had prevailed by the end of the 1960s and early 1970s, seems to have stabilized (tables 4A and 4B). Even though in the supposedly better times of 1991-93 inequality slightly diminished in comparison with the crisis years, the shape of income distribution was worse than in the mid 1980s. The inequality peak of 1989 is a singular point in an otherwise stable pattern. The distribution of income of the employed population too remained quite stable between 1988 and 1993,[49] with minor gains for the poorest 60%, and minor losses for the rest (table 5).[50]

Between 1950 and 1975 real wages had remained at an approximately constant level. The relatively strong trade unions generally had been able to preserve the purchasing power of wages, while the pressure of excess labour prevented them from raising wages *pari passu* with growing manufacturing productivity. **The decreed wage freeze of 1976 resulted in a decline of about 30%,** and, despite some occasional improvements, this loss was not to be recovered. Real wages improved in 1984 when in its first year the constitutional government implemented redistributive measures, and again in 1985-86 with the favourable impact of the *Plan Austral* on the inflation rate, but later, even though free wage bargaining was allowed since 1988, wages receded as rapid inflation was added to unemployment growth and weaker trade unions (table 4A). Labour's share in GNP also fell after 1976 (table A2, Appendix). The 1991 stabilization plan's success in arresting inflation contributed to some recovery in wage earners' purchasing capacity over that of the immediately preceding years; free wage bargaining helped, although trade union subordination to the state through cooptation of the main trade union leaders favoured a passive attitude in relation to lost income. This notwithstanding, in a longer-term perspective, and also in comparison with mid 1980s rates, real wages remained at a very low level (table 4A). Still, while between 1976 and 1990 labour costs had lagged behind productivity growth,[51] in 1992

[48] Fall of wages in 1977-78, and again in 1987-89, affected the second poorest 30% more than the next 30% (waged workers are somewhat more concentrated in these two strata), but both lost some of their income share.

[49] Data on income distribution of the employed population according to main job are available as from 1988.

[50] The distributions of total household income and per capita household income follow approximately the same trend as the distribution of individual income (data from INDEC, EPH).

[51] Real manufacturing wages (deflated by CPI; at that time trends in consumer and wholesale prices resembled each other) fell annually -1.6% in 1976-89 while manufacturing productivity (per hour) increased by 2.8% (see Marshall, 1993a). Labour costs in manufacturing had fallen -5.1% annually in 1981-85, and increased 1.0% per year in 1986-90, while in the same periods productivity (per worker) had declined -3.2% and risen 1.4%, respectively (unpublished estimates from Ministerio de Trabajo y Seguridad Social).

labour's income share in manufacturing industry exceeded that of 1980; even though real wages remained low, manufacturing wholesale prices rose more slowly than the CPI since 1990, and in addition wage costs increased faster than productivity.[52]

From the mid 1970s wages fell but earnings out of profits did not. This is evidenced by the rise of the income share of the 10th richest population decile in 1977 to a higher level about which it stabilized in the longer-term. Those in the top decile were either non wage earners or managers and executives, often professionals (38.6% of wage earners in this income class, and 34.0% non wage earners, had completed university education), in banking and finance (strongly over-represented in this income class), manufacturing and certain services.[53]

The foregoing describes the evolution of income distribution in Buenos Aires and its metropolitan area. Income distribution patterns in other cities were similar to that found in Buenos Aires, although there are some differences in trends among the other six urban areas examined, that reflect diversity in local economic and political contexts (table 6).[54] In the early 1990s, for instance, flow of funds with political aims (Corrientes), growth of public sector employment (La Rioja), closing down of large factories (Córdoba, Rosario) might all have affected distribution patterns.

The growth of income concentration after 1976 was determined not only by the reduction of wages *vis-à-vis* earnings out of profits but also reflected the increase in inequality in the distributions of both wage income and the income of the self-employed.[55] Given the importance of wage labour in the employment structure the changes in the distribution of wage income

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[52] Notoriously, the price of commercialization and private services increased much more than manufacturing prices, and this is reflected by the CPI, which is the standard of reference for wage change. Between 1990 and 1992 manufacturing labour costs per unit rose by 9% (on the basis of productivity per worker; Ministerio de Trabajo y Seguridad Social, unpublished). Labour's share in manufacturing was estimated in 38.8% in 1980, 34.5% in 1990, and 40.6% in 1992 (ibid.). Owing to the fixed exchange rate, in the same period unit labour costs in dollars increased even more, contributing to erode the competitiveness of Argentine manufactures. The 1993 decreed rebates of payroll taxes in manufacturing firms was expected to offset at this partially such increase in labour costs (payroll taxes represented 33% of the manufacturing wage bill).

[53] INDEC, EPH, October 1988. There is consensus on the fact that income concentration is underestimated by EPH data as underdeclaration by highest-income classes is widespread.

[54] Comparable data were made available as from 1984.

[55] On wage income and income from self-employment see Beccaria (1991), but distributions are not shown.

should have had a substantial effect on the overall distribution of individual income.[56]

Between 1950 and the mid 1970s, the above described "fluid" labour market situation (that did not favour wage competition to attract workers), as well as the intervention of trade unions (that spread wage increases "downwards") and of the state (which decreed uniform and flat-rate wage increases) had tended to mitigate the widening of wage differentials across sectors and occupations that accompanies the differentiation in production situations, in particular, the process of industrial diversification (Marshall, 1978 and 1980).

Later, in the long period from the mid 1970s to the early 1990s, there was a widening of differentials between wages of manual workers and employees with little skill, and salaries of professional and highly skilled non manual personnel, managers and executives, as well as between wages of comparable jobs in different types of firms (Marshall, 1985; Beccaria, 1991).[57] Similarly, owing to attempts at cutting down public expenditure, after 1988 public sector wages increasingly lagged behind those in the private sector, while salaries in banking continued to improve *vis-à-vis* the rest. This greater differentiation surely helps to explain the growth of inequality, but on the whole the increase of wage dispersion across manufacturing industries and economic sectors was not spectacular (Marshall, 1994).

DISTRIBUTIONAL EFFECTS OF FISCAL POLICY

The taxation reforms (i.e. tax exemptions to distributed profits, increase and generalization of the VAT, social security financing reform) undertaken by the military government furthered income concentration and curtailed workers' disposable income. Social expenditure was no longer used as a mechanism of downward income redistribution. Even though real social (education, health and housing) expenditure and its share of GNP did not decline, the latter averaging 7% in both 1970-75 and 1976-83,[58] this did not help arresting the growing deterioration of the social infrastructure and services.[59]

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[56] It is worth noting that wage earners represented 71.3% of the 1-3 poorest employed population deciles, 78.8% of the following 30%, 76.3% of the next 30%, and 62.4% of the richest 10% (Buenos Aires, 1988; INDEC, EPH).

[57] According to Beccaria (1991), the latter was the most important factor in accounting for the increase of inequality in the distribution of wage income.

[58] Data on the consolidated public sector from Secretaría de Hacienda. Other, minor, welfare programmes are not considered here.

[59] See Marshall (1988a) for a detailed analysis of this period.

Tax policies that followed the return to the democratic regime, designed to augment fiscal revenues and to ease the deficit of the retirement pension system, did not alter the regressive structure of government revenues and did not moderate the growth of inequality. The slight increase of state social expenditure (education, health and housing),[60] to an average of 8.3% of GNP in 1984-88 (Vargas de Flood and Harriague, 1993), did not improve the provision and quality of social services. In addition, the erosion of the social security system (particularly the retirement scheme and family allowances) was notorious. Revenues of the public retirement scheme declined with wages and employment,[61] and in 1983-89 the level of pensions went down much more than any other remuneration. The coverage of the *obras sociales* did not decrease (in Buenos Aires, it had been only 27% in 1970, rose to 61% in 1980, and was 64% in the capital city and 58% in its metropolitan district in 1989),[62] but the system's deficit expanded considerably to the detriment of the quality of health services.

The changes introduced in the tax system after 1991 and the tougher policy against evasion increased tax revenues. But, while elimination of the so-called inflationary tax had a progressive effect,[63] that of tax reforms intensified regressiveness as a result of the generalization and increase of the VAT. Subsequently, the weight of indirect taxation in total tax revenues (including payroll taxes), already very substantial (59.4% in 1990), rose to 64.3% in 1993.[64] Trends in state social spending in 1990-93 reflected the tight stand in relation to public expenditure. Although the GNP share of social security expenditure increased in 1990-92 from 5.9% to 6.7%, expenditure on education, health and housing all together was 7.6% in 1989 and 7.5% in 1990-92 (Vargas de Flood and Harriague, 1993). Figures from the state budget of 1993 envisaged a raise to 8.3% in social security but 7.4% for education, health and housing. The reform of the public retirement pension scheme approved in 1993 had the objective of reducing its scope, tending to the privatization of social security, as described above. Despite the increase

[60] Other, comparatively minor, social programmes, among which the national food plan created in 1984 and the nutritional programmes for school children, were not counted here.

[61] In 1985-1990, revenues from personal and employer taxes for the state retirement pension scheme (once employer payroll taxes had been reinstated) were lower than in 1980 (CEPAL; at constant prices).

[62] Data from Encuesta de utilización de servicios y gasto en atención médica, Ministerio de Salud Pública, 1982 and from PRONATASS (n.d.).

[63] According to official estimates, in 1990 the inflationary tax "pressure" on the poorest 20% of the population was three times its impact on the highest income 20% (*"Argentina en crecimiento"*, op. cit.: table 5).

[64] On the basis of data in Ministerio de Trabajo y Seguridad Social (1991), and FIDE, *Coyuntura y Desarrollo*, 1993.

of social security expenditure, the level of the minimum benefit, received by 59% of the retired,[65] fell even further and was the pervasive object of social demands; in 1992 minimum benefits showed the lowest level since 1980; they had been equivalent to 33% of the manufacturing wage in 1980 but to 22% in 1992. In the light of the foregoing, 1990-1993 trends in state social expenditure and taxation at best did not alter, at worst intensified, the degree of inequality in income distribution.

FINAL CONSIDERATIONS

As in other Latin American economies, in Argentina too wages fell and inequality increased in the 1980s. But these trends started well before the debt crisis and subsequent so-called "adjustment" policies. The initial large upward income transfer was the outcome of the views and deliberate policies of the military government of the late 1970s. This new distribution pattern was to prevail from then onward, and was still quite the same in 1993. Therefore the growth of inequality cannot be attributed mainly to economic restrictions. During the 1980s, in a period when stabilization was the primary goal of economic policy, inequality remained at a higher level than in the past as a result not only of structural economic constraints but also of policy choices, and reached new peaks exacerbated by the crisis and hyperinflation.

It was argued in this paper that the worsening of income distribution is explained, first and foremost, by state wage restraints and fiscal policies; second, by the growth of the labour surplus and weakening of trade unions; and third by spiralling inflation, that in certain periods exacerbated income concentration.

State income and labour policies, derived mainly from the successive governments' conceptions on the economic role of wages, had a direct impact on the shape of income distribution. This was particularly the case with the period 1976-1982, but to an important extent explains also distributional outcomes in 1985-1987 as well as in 1991-1993. In the military government's period the reduction of labour costs had been perceived as a precondition for growth. In 1985-1987 (with the Radical party in government) wage policy was based on the notions that increased consumption out of wages would overheat the economy unleashing inflationary pressures, and that it would bring about balance-of-payment difficulties. Finally, in 1991-93, once the *Plan de Convertibildad* was launched by Menem's government, again prevailed the notion that a wage raise would trigger rapid price increases, and that higher labour costs would erode further the already scarcely competitive position of Argentine manufactures in the world market. In this period, central aspects of the economic programme seem to have

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[65] Data from Secretaría de Seguridad Social in *Anuario Estadístico de la República Argentina*, Buenos Aires, 1993. Some 56% of the retired with the minimum benefit had been self-employed workers.

restricted the options for reversing income distribution patterns. Trade liberalization and the fixed exchange rate precluded wage increases in the private sector, fiscal control limited growth of public sector wages and of pensions, and the adoption of a more regressive taxation structure tended to reinforce inequality.

It has been possible for the state to implement wage restraints not only, as in 1976-1982, by concomitantly repressing trade union activity, but also because in the 1980s and early 1990s labour market trends were unfavourable to workers. In 1987-1990 in particular, only those who could rapidly adjust their prices did not lose income or lost less than the rest; wage earners and pensioners, with relatively "fixed" incomes, were among the main losers in the hyperinflationary period. Trade unions, weakened by mounting unemployment and underemployment, were unable to obtain wage increases that would parallel the hectic evolution of the consumer price index. From 1991, with the new programme that succeeded in checking price growth, unemployment nonetheless continued to expand; again, weak and divided trade unions (and coopted trade union leaders) were not able to really challenge the real wages *status quo*.

It was contended also in this paper that labour market trends themselves were affected by economic policies. In the years 1991-1993, for instance, the negative labour market effects seem to be imbedded in the economic strategy: while certain components of the policy package contributed to check the growth of labour demand (e.g. trade liberalization's and convertibility's adverse impacts on manufacturing employment; employment declines as a result of the "state reform"), at the same time some measures tended to stimulate the increase of the supply of labour (i.e. low wages and unemployment of adult males intensified the labour force participation rates of women; the exchange rate fostered immigration).

The years 1991-93 were a transitional period between the structural crisis and the expected strengthening of a new growth model. This period witnessed fast economic reconversion fostered by drastic change in policy. It is uncertain how long this transitional period may last, whether it will effectively lead to sustained economic growth, and whether, in this case, labour market conditions and the pattern of income distribution will improve or, instead, an ample labour surplus and strong inequality will crystallize as permanent features of Argentine society.

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Table 1A. Urban rates of labour force participation, employment and unemployment, 1974-1993

	LFPR urban[a] 1983=100	LFPR GBA 1983=100	Employment[b] urban[a] 1983=100	Employment[b] GBA 1983=100	Unemployment[c] urban[a] (%)	Unemployment[c] GBA (%)
1974	107.5	108.3	--	108.8	3.4	2.4
1975	106.4	107.2	--	107.7	3.8	2.8
1976	103.7	104.3	--	103.3	4.4	4.0
1977	103.5	103.7	--	104.7	2.7	2.3
1978	104.6	106.4	--	107.7	2.3	1.9
1979	102.9	105.1	--	106.3	2.4	2.1
1980	103.2	104.8	--	105.8	2.5	2.3
1981	102.7	104.3	--	102.5	5.3	5.0
1982	103.2	104.5	--	103.9	4.6	3.7
1983	100.0	100.0	100.0	100.0	3.9	3.1
1984	101.6	102.4	101.1	101.9	4.4	3.6
1985	102.4	103.5	100.3	101.6	5.9	4.9
1986	103.7	106.7	102.5	105.2	5.2	4.5
1987	104.3	106.7	102.5	104.4	5.7	5.2
1988	105.6	108.0	103.3	105.2	6.1	5.7
1989	105.4	108.8	102.0	104.4	7.1	7.0
1990	104.6	107.5	102.0	104.4	6.3	6.0
1991	105.9	108.8	103.6	106.3	6.0	5.3
1992	107.8	111.2	104.5	107.2	7.0	6.7
1993	109.9	115.5	103.6	107.7	9.3	9.6

[a] Refers to all 25 urban areas covered by the survey, including Buenos Aires (GBA)
[b] Rate of employment relative to population
[c] Unemployment rate relative to EAP

Source: INDEC, EPH (October).

Table 1B. Employment rate, Buenos Aires, 1980-1993

	employment rate:		
	total	15-64	women 15-64
1980	38.4	59.3	37.1
1981	37.2	56.8	36.1
1982	37.7	57.8	36.9
1983	36.3	56.5	34.7
1984	37.0A	59.5	36.4
1985	36.9N	57.5N	37.7N
1986	38.2N	59.2N	40.5N
1987	37.9	59.0	40.1
1988	38.2	59.3	41.3
1989	37.9	60.6	40.9
1990	37.9	60.0	42.3
1991	38.6	59.9	41.7
1992	38.9	60.1	42.9
1993	39.1	59.1	42.4

A April
N November

Source: INDEC, EPH (October).

Table 2A. Selected characteristics of the labour force, Buenos Aires, 1984-1993

	1984	1985	1988	1990	1992	1993
% 15-19 in EAP	7.0	6.7	7.1	7.0	7.9	7.2
% 20-24 in EAP	14.3	12.6	13.7	12.1	13.2	13.9
% women in: EAP	33.7	34.1	36.7	36.4	36.7	38.5
employed	33.5	34.2	36.5	36.2	36.8	37.3
wage earners	nd	nd	37.5	36.8	38.0	38.6
% not household heads in: EAP	48.3	47.8	48.2	47.9	50.0	51.5M
employed	47.7	46.9	46.9	46.7	48.9	49.1
wage earners	50.0	49.8	50.0	50.2	52.6	53.1

A April M May

Table 2B. Labour force characteristics in selected urban areas, 1984 and 1992

	Córdoba		Rosario		Corrientes		La Rioja		Neuquén		Tucumán	
	1984	1992	1984	1992	1984	1992	1984	1992	1984	1992	1984	1992
% women in employment	34.8	37.4	33.6	37.4	37.7	36.2	36.9	37.8	34.3	40.0	35.5	38.1
% 15-19 in EAP	6.0	6.0	5.9	8.7	7.2	4.9	6.9	7.4	9.0	6.9	7.3	8.7
20-24 in EAP	15.8	13.4	12.0	12.7	14.2	12.2	16.9	13.0	13.1	13.6	15.0	12.4
% not house-hld hds. in: employed	50.2	50.0	45.1	48.9	49.6	48.9	52.2	50.9	43.1	43.1	53.2	51.8
wage earners	53.7	54.7	48.3	51.7	51.9	53.7	53.8	52.2	46.2	46.3	56.5	55.4

Source: INDEC, EPH (October).

TABLE 3A. Share of wage employment* in Buenos Aires, 1974-1993 (%)

	% wage/total empl.*
1974	74.9
1975	74.6
1976	73.3
1977	71.9
1978	70.7
1979	71.6
1980	70.3
1981	71.3
1982	70.3
1983	70.9
1984	70.9
1985	70.8
1986	71.4
1987	71.1
1988	70.6
1989	69.1
1990	69.2
1991	70.2
1992	70.0
1993	68.7

TABLE 3B. Share of wage employment*
in selected urban areas, 1984 and 1992 (%)

	1984	1992
Buenos Aires	70.9	70.0
Córdoba	67.2	65.9
Rosario	62.4	57.8
Corrientes	77.8	71.8
La Rioja	77.9	77.0
Neuquén	76.2	73.2
Tucumán	70.3	64.4

* Total emloyment excludes those whose employment status was unknown

Source: INDEC, EPH (October).

Table 4A. GNP per capita, real wages and the distribution of individual income,* 1974-1993.

	GNP per capita % change	Real hourly wages manufacturing 1983=100		Income share of: Buenos Aires (%)			
				30% poorest	30%	30%	10% richest
1974	3.6	132.4		11.3	22.4	38.2	28.0
1975	-2.2	134.3		11.4	22.4	38.6	27.6
1976	-1.6	94.9		12.1[a]	--	--	28.0[a]
1977	4.7	81.2		10.9	18.9	36.4	33.7
1978	-4.8	77.0		10.2	17.9	35.8	36.1
1979	5.3	88.9		--	--	--	--
1980	-0.1	99.0		--	--	--	--
1981	-8.2	92.8		10.5	18.7	35.8	35.0
1982	-6.5	80.6		10.8	19.6	36.0	33.6
1983	1.3	100.0		10.2	19.9	37.0	32.8
1984	1.0	127.1		10.2	20.3	36.3	33.2
1985	-5.7	111.6		10.0	19.4	37.3	33.3
1986	4.7	105.2	116.2[b]	--	--	--	--
1987	0.8	97.2	104.8[b]	9.1	18.5	36.3	36.0
1988	-4.0	93.3	101.4[b]	9.3	17.9	36.9	35.9
1989	-5.8	80.6	82.0[b]	7.9	15.7	34.8	41.6
1990	-1.4	78.7	85.8[b]	9.7	19.1	36.0	35.2
1991	4.1	--	87.0[b]	9.5	18.4	35.7	36.3
1992	--	--	88.1[b]	9.0	19.4	37.2	34.4
1993	--	--	86.9[bc]	8.9	19.4	37.1	34.6

* Refers to all income earners

[a] Data presented in Beccaria (1991).
[b] This series, among other changes, refers to monthly wages deflated by the average of CPIs of same and next months, while the 1974-90 series refers to wages deflated by the CPI of the same month
[c] Average three first quarters

Source: CEPAL (GNP per capita and real wages); INDEC, EPH, October (income distribution; distributions for 1974-1985 were kindly made available by L. Beccaria).

Table 4B. Degree of inequality of individual income* distribution. Buenos Aires, 1970-1993

Selected years

	gini coeffic.
1974	.36
1975	.36
1978	.44
1982	.42
1984	.41
1988	.45
1990	.43
1992	.43
1993	.44

* Refers to all income earners

Source: own estimates on the basis of INDEC, EPH (October).

Table 5. Buenos Aires. Distribution of personal income of the employed population according to population deciles, 1988-1993
(percentages)

income class	I-III poorest	V-VI	VII-IX	X richest
1988	9.5	19.7	37.7	33.3
1990	10.5	20.5	35.9	33.0
1991	11.2	20.4	35.8	32.5
1992	11.5	20.3	36.3	32.1
1993	11.0	20.3	36.2	32.4

Source: INDEC, EPH (October).

Table 6. Distribution of individual income, selected cities, 1984 and 1992 (percentages)

popul.deciles	1984	1992
Buenos Aires		
1-3 poorest	10.1	9.0
4-6	19.7	19.4
7-9	35.6	37.2
10 richest	34.6	34.4
Córdoba		
1-3	10.5	10.1
4-6	21.4	19.6
7-9	38.4	35.9
10	29.6	34.3
Rosario		
1-3	10.7	10.5
4-6	21.1	20.2
7-9	36.5	36.7
10	31.6	32.5
Corrientes		
1-3	8.6	12.9
4-6	19.7	20.6
7-9	35.6	35.1
10	36.0	31.4
La Rioja		
1-3	9.7	10.7
4-6	19.3	20.2
7-9	33.8	37.7
10	37.2	31.4
Neuquén		
1-3	nd	9.2
4-6	nd	19.9
7-9	nd	37.8
10	nd	33.1
Tucumán		
1-3	9.1	9.7
4-6	19.6	19.2
7-9	36.6	34.8
10	34.5	36.3

Source: INDEC, EPH (October).

TABLE A1. Gross Domestic Product and Selected Macroeconomic Variables, 1980-1993

	GDP* $	mfg. gdp $	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	CPI
1980	10331.2	2890.4	78.3	22.5	4.1	26.6	2.3	-4.9	-1.5	7.5	5.4
1981	9737.8	2544.1	80.2	19.2	4.4	23.6	3.1	-3.8	-3.7	13.3	7.2
1982	9431.2	2475.8	78.1	17.9	2.5	20.4	1.2	1.5	-5.2	15.1	9.9
1983	9783.3	2658.3	78.4	16.9	2.6	19.5	1.4	2.1	-6.1	15.1	15.0
1984	9962.2	2728.6	79.9	15.9	2.6	18.5	2.2	1.6	-6.4	11.9	18.8
1985	9303.3	2458.4	79.8	15.2	1.1	16.3	1.3	3.9	-6.2	5.4	14.1
1986	9984.1	2737.6	80.7	14.7	2.7	17.5	0.0	1.8	-4.6	4.1	5.1
1987	10241.8	2785.7	79.7	15.8	3.8	19.5	-0.3	0.7	-4.2	5.0	8.8
1988	10049.1	2650.1	77.5	18.5	1.1	19.5	0.7	3.0	-4.7	6.0	14.1
1989	9424.3	2461.2	79.3	15.9	-0.2	15.7	1.4	5.0	-6.2	3.8	38.6
1990	9430.4	2511.5	78.9	17.3	-3.1	14.2	0.4	6.9	-4.3	3.8	24.9
1991	10270.0	2810.8	81.6	14.9	1.4	16.3	0.3	2.1	-3.8	1.6#	5.2
1992	11158.7	3017.0	83.2	13.4	6.2	19.6	0.0	-3.2	-2.9	0.1#	1.4
1993	11832.0	3152.8	82.9	14.8	6.3	21.0	0.1	-3.9	-2.4	0.1#	0.6

es (%), relative to GDP, of:
Consumption
Domestic savings
Foreign savings
Gross Investment
Effect terms of exchange
Trade balance (goods and services)
Net external payments; deflated by price index of imports
Fiscal deficit (from 1985, national public sector)

I: Consumer price index (monthly % rate of change)

;DP at market prices, in thousands; 1986 prices; revised estimates by the Central Bank (BCRA), olished April, 1993.
stimated on the basis of budget laws; this does not always coincide with the real fiscal deficit.

irce: CEPAL, Indicadores Macroeconómicos de la Argentina, Buenos Aires, October 1991 and May 1994 bject to revision).

TABLE A2. Labour share, 1970-1989 (percents)

	(1)	(2)
1970	43	43
1971	43	44
1972	40	41
1973	43	44
1974	45	45
1975	43	40
1976	30	25
1977	25	26
1978	28	33
1979	31	34
1980	35	39
1981	33	38
1982	22	26
1983	29	34
1984	36	40
1985	32	38
1986	35	44
1987	33	37
1988	29	32
1989	24	28

Source: Estimates by FIDE (1) and Beccaria and Orsatti (2) on the share of wages (i.e. excluding payroll taxes) in GDP, cited in Beccaria (1991).

TABLE B. Labour force participation and unemployment rates by sex, Buenos Aires, 1974-1993 (percents)

	LFPR			Unemployment		
	total	women	men	ttotal	women	men
1974	40.5	24.8	58.0	2.4	4.1	1.6
1975	40.2	23.8	58.2	2.8	4.4	2.1
1976	39.1	23.7	56.5	4.0	7.3	2.5
1977	38.9	23.8	55.6	2.3	4.4	1.4
1978	39.9	25.7	55.6	1.9	3.0	1.3
1979	39.4	25.1	55.0	2.1	2.7	1.7
1980	39.3(61.1)	24.7(38.4)	55.2(84.8)	2.3	3.4	1.8
1981	39.1(59.8)	25.0(38.1)	54.4(83.9)	5.0	5.3	4.9
1982	39.2(59.8)	25.3(38.7)	54.5(83.9)	3.7	4.5	3.3
1983	37.5(58.4)	23.0(36.2)	53.2(82.4)	3.1	4.0	2.7
1984	38.4(59.9)	24.4(38.1)	53.4(83.5)	3.6	4.4	3.2
1985	38.8(60.3)	25.5(39.5)	52.9(83.0)	4.9	4.6	5.0
1986	40.0(62.0)	27.5(42.7)	53.7(83.8)	4.5	5.0	4.2
1987	40.0(62.1)	27.5(42.7)	53.8(83.6)	5.2	6.4	4.5
1988	40.5(62.8)	28.4(44.2)	53.7(83.3)	5.7	6.4	5.3
1989	40.8(63.0)	27.9(44.1)	54.2(83.5)	7.0	7.2	6.9
1990	40.3(63.9)	27.9(45.2)	53.4(84.1)	6.0	6.5	5.7
1991	40.8(63.3)	28.0(44.3)	55.1(83.6)	5.3	5.9	4.9
1992	41.7(64.4)	29.3(45.9)	55.2(84.5)	6.7	6.3	6.9
1993	43.3(65.6)	31.9(48.5)	55.6(84.1)	9.6	12.4	7.9

Note. Between brackets: LFPR of population aged 15-64.

Source: INDEC, EPH (October).

TABLE C. Population of working age: share of the economically active, the employed and unemployed, and the self-employed, Buenos Aires, 1984, 1988 and 1993

(percents of total population aged 15 or over).

	1984	1988	1993
EAP	53.0	55.5	57.9
employed	51.1	52.4	52.4
unemployed	1.9	3.1	5.5
self-employed*	10.7	11.3	12.7

* Included in 'employed'

Source: INDEC, EPH (October).

Table D1. Economic structure of wage employment, Buenos Aires, 1984-1993 (percentages)

	1984	1988	1990	1992	1993M
Manufacturing	32.5	29.9	28.0	27.0	27.0
Construction	4.3	5.0	3.4	4.0	4.0
Trade, hotels, restaurants	12.9	15.1	14.5	16.5	15.9
Transportation communicat.	7.1	7.3	7.6	7.5	8.1
Finance, real estate, insur., business serv.	7.1	8.8	7.7	7.9	7.3
Social and personal services	33.5	32.6	36.7	35.3	35.7

M May

Structure of wage employment according to sex
Buenos Aires, 1988

	Mfg	Constr.	Trade, hotels,	Transp,, comm.	Finance in., etc.	Social, pers.ser.
men	35.0	7.7	16.2	10.4	8.3	20.5
women	21.4	0.5	13.3	2.2	9.6	52.7

Note: Activities not shown in these tables are: agriculture; mining; electricity, gas and water, and a tiny number of unknown.

Source: INDEC, EPH (October).

Table D2. Economic structure of wage employment
Selected urban centres, 1984 and 1992
(percentages)

	Mfg	Const.	Trade	Transp. comm.	Finance, insuran.	Social & pers. servs.
GBA						
1984	32.5	4.3	12.9	7.1	7.1	33.5
1992	27.0	4.0	16.5	7.5	7.9	35.3
Córdoba						
1984	24.0	6.4	17.0	7.1	4.5	39.4
1992	19.9	5.9	18.5	6.8	5.8	41.4
Rosario						
1984	30.7	4.1	15.1	10.9	6.1	30.6
1992	25.8	5.0	15.1	7.9	5.3	39.0
Corrientes						
1984	7.9	9.6	11.9	3.7	3.7	60.2
1992	7.7	4.4	12.5	4.3	2.5	66.0
La Rioja						
1984	17.3	5.6	8.1	5.6	2.5	57.9
1992	16.4	4.5	9.5	2.4	1.2	63.4
Neuquén						
1984	6.6	15.9	13.4	4.4	5.3	46.2
1992	6.5	8.7	17.3	5.1	4.3	52.6
Tucumán						
1984	16.7	8.4	15.9	5.4	3.2	48.3
1992	14.2	5.2	16.9	5.4	7.5	49.0

Note: The "unknown" were not subtracted in 1984, but they represent at most 1%, and generally less, of wage earners. Rest of activities are not shown in this table.

Source: INDEC, EPH (October).

TABLE E. Structure of GDP,* 1980-1992

(percents)

	1980	1985	1990	1992
Agriculture	6.9	8.4	8.9	7.8
Mining	2.2	2.3	2.7	2.3
Manufacturing	28.0	26.4	26.6	27.0
Electr., Gas., Water.	1.5	2.0	2.1	1.9
Construction	8.1	5.3	4.5	5.6
Trade, hotels., restaur.	17.8	16.5	15.5	16.7
Transport., communicat.	4.0	4.7	5.0	5.0
Finance, insur., real est	14.2	15.3	15.0	15.7
Social & personal services	16.7	19.1	20.2	17.0

* GDP at 1986 prices

Source: BCRA, Estimaciones anuales de la oferta y demanda globales, período 1980-1992, Buenos Aires, April, 1993.